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DIRECTORATE OF INTELLIGENCE

30 December 1985

Chinese Countertrade: A Carrot or a Stick? [redacted] 25X1

Summary

Over the past year, China has intensified its interest in expanding countertrade--the use of goods rather than cash to purchase goods and technology. In doing so, Beijing has several goals: to acquire goods and technologies without spending a lot of foreign exchange, to strengthen its ties to Third World nations, and to press developed countries to reduce their trade surpluses with China. Despite the push to increase this type of trade, however, we believe China will not require countertrade arrangements in all dealings with US firms, but will continue to negotiate countertrade on a case-by-case basis. [redacted] 25X1

This memorandum was prepared by [redacted] Office of East Asian Analysis, at the request of Department of State. Information available as of 30 December 1985 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Development Issues Branch, China Division, OEA [redacted] 25X1

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Chinese Countertrade...

In October, China's Ministry of Foreign Economic Relations and Trade (MOFERT) announced the establishment of a new trade unit devoted to the promotion of countertrade. This new unit is still small, is not fully operational, and its guidelines have not yet been officially announced. [redacted] 25X1

The unit's establishment represents an intensification of interest in countertrade rather than a policy shift. China has long used countertrade to foster trade, particularly when either China or its trading partner could not afford a conventional trade transaction. Beijing generally uses three types of countertrade:

- Barter -- a one-time exchange of goods involving no money.
- Compensation trade -- the repayment for goods or technology with a resultant product.
- Counterpurchase -- an agreement under which each party buys goods from the other to balance each other's trade. [redacted] 25X1

With Communist and Less Developed Nations

China also uses countertrade with Third World nations to strengthen political ties. Premier Zhao Ziyang, during his tour of four South American countries this fall, stated publicly that the rapid advancement of Chinese-Brazilian trade was mainly a result of countertrade and that this sort of trade was a good way to expand cooperation between developing nations. Ye Lingyuan, Deputy Director of MOFERT's Import-Export department, stated at the time of the establishment of MOFERT's new countertrade unit that China should take the initive to trade on a barter basis with Third World countries to promote cooperation among developing nations. China has signed countertrade agreements with several developing countries including Bangladesh, Tanzania, Saudi Arabia, Sri Lanka, and Pakistan. [redacted] 25X1

China also conducts much of its trade with the Soviet Union and Eastern Europe on a countertrade basis to overcome mutual shortages of foreign exchange. Last year, Sino-Soviet trade exceeded $1.2 billion, almost exclusively through barter. Barter is also China's primary trade mechanism with most East European countries. According to press and diplomatic reporting, since May of this year China has signed countertrade agreements with seven East European countries. [redacted] 25X1

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With Developed Nations

In its commercial dealings with the West, China has used countertrade increasingly to expand trade and foreign investment and to encourage the transfer of technology while conserving foreign exchange. Many joint ventures and other investments are financed by compensation trade and counterpurchase arrangements. In an agreement with a Shanghai factory, for example, the US sporting goods firm AMF provided $1 million worth of equipment in return for 340,000 balls per year over a 10-year period. The Chinese have also been eager to countertrade raw materials such as coal and metals for semifinished manufactures and machinery. [redacted] 25X1

A statement by Ye Lingyuan suggests Beijing may also use countertrade to press developed countries to reduce their trade surpluses with China. [redacted] 25X1

Impact on the United States

Despite this occasional pressure--and some extreme statements by Ye Lingyuan, [redacted] claiming that China will no longer consider straight cash transactions--we think Beijing recognizes that sweeping countertrade requirements could choke off China's access to foreign investment and technology. Although we do not rule out increased emphasis on countertrade in response to increased US protectionism, or tight foreign exchange resources, we believe that the Chinese will not impose blanket countertrade requirements against US firms but will continue to use a mix of foreign exchange and countertrade to obtain essential materials and technology. [redacted] 25X1

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1 - Christine Lucyk, Office of PRC and Hong Kong, Room 2317 Department of Commerce

1 - Office of Intelligence Liaison, Room 6854, Dept. of Commerce

1 - William Abnett, Director of China Affairs, Office of Bilateral Affairs, 600 17th St., Office of the US Trade Representative

1 - Mr. Joseph A. Massey, Assistant US Trade Representative for Japan and China, Office of the United States Trade Representative Room 315, Winder Bldg, 600 17th St., NW, Wash, DC, 20506

1 - [redacted] 25X1

I N T E R N A L

1 - Senior Review Panel, 5G-00
1 - PDB Staff, 7F-30
1 - NIO/EA, 7E-62
1 - C/PES, 7F-24
1 - C/DO/PPS, 3D-01
1 - FBIS/NEAAD/China Branch, 306 Key
1 - C/EA/[redacted] 5E-18 25X1
1 - CPAS/ILS, 7G-50
5 - CPAS/IMC/CB, 7G-07

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2 - C/OEA/CH
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1 - C/OEA/CH/DOM
1 - C/OEA/CH/DEF
1 - C/OEA/CH/DEV
1 - OEA/Research Director, 4G-48
1 - D/OEA, 4G-18
1 - DDI, 7E-44
1 - Chrono
1 - Author
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[redacted] 25X1